A New Commercial Policy For the United States

An Address

by

Raymond Leslie Buell

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Raymond Leslie Buell
Research Director of the Foreign Policy Association

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In asking me to discuss the world crisis and American foreign policy you could not have selected a more complicated and important question. I shall attempt to deal with it as objectively and as simply as I possibly can because I am convinced that we cannot solve the present agonizing problem of poverty and unemployment until we realize the part which the commercial policy of the United States played in creating present conditions, and until we understand that this policy must be changed before there can be any real recovery.

The United States before the World War

Before the World War the American people lived pretty much to themselves. We tilled our fields, erected factories and built railroads for the purpose of opening up the West. To hasten our economic development we borrowed several billion dollars from Europe. We met the interest payments on these loans by exporting to Europe raw materials, such as wheat, cotton and tobacco. In order to develop infant industries we followed a protective tariff policy—a policy which at that time may have been logical since we were concerned primarily with the domestic market. We had no desire to expand our exports; it may have been logical, therefore, to limit our imports. At the same time we remained what the economists call "a debtor nation."

The Revolution Caused by the War

The outbreak and the course of the World War revolutionized the position of the United States. In order to secure food and munitions, the Allied governments turned to America where an enormous industrial expansion took place. The Allies did not, however, have the ready cash to pay for their purchases. Consequently, they began to borrow, at first from our private bankers and, after 1917, from the government itself. The government loaned the Allies about $10,000,000,000 but it did not loan them gold. We simply told them that they could buy $10,000,000,000 worth

of goods in the United States, at war profiteering prices, and could pay us for these goods after the war came to a close.

When the Armistice came in November 1918 the American people woke up to find that they had become a world power. With the assistance of American money, industrial production, and military organization the Allies were able to win the war. The American delegation was a dominant influence at the Paris Peace Conference. Most important of all, the United States had ceased being a debtor nation and had become a creditor. It had paid off its debt to Europe, and Europe now owed the United States vast sums. America had become the banker for the world.

The Gold Standard

In order to understand the developments which now took place, it is necessary to explain the elementary principles of international trade. When you or I wish to buy a loaf of bread we do not offer to barter another article for this loaf of bread; we merely give the baker a ten-cent piece. But the process of buying goods in international trade is much more complicated because a ten-cent piece is worthless outside the United States. Each country has its own currency system; there is no such thing as an international currency. The closest approach to it is gold. Realizing the importance of having a common measure of value, most governments have attempted to follow what is called the gold standard. They have based their currency upon gold. An American exporter, knowing that French prices are based on gold is in a position to determine whether or not it is profitable to export his product to France since the costs of his American product are based on gold. One difficulty with the gold standard has been that the amount of gold in the world is comparatively small. No nation pays for all of its imports with gold. The great advantage of gold has been merely that it has acted as a stabilizing factor upon different currency systems. At the same time, however, it has been the practice to pay certain balances in gold; and the tendency has been for gold to flow in and out of countries in accordance with what is called a trade balance. For example, if a nation exports $1,000,000 worth of goods in a given year but imports $1,100,000 worth, it might pay the difference of a hundred thousand dollars by shipping gold. But according to the theory of economists, the export of this gold would increase prices in foreign countries and lower prices in the country losing gold. The gold-losing country would be a cheap place in which to buy goods; consequently its exports would increase so that in the next year it would export say $1,100,000 of goods while importing only $1,000,000 worth. To pay for this surplus of $100,000 worth of goods, foreign countries would supposedly return the gold which the United States had exported in the previous year. In other words, the gold standard was a means of balancing the interna-

tional books and it was supposedly an automatic means of keeping prices fairly well stabilized throughout the world.

The gold standard could operate, however, only if governments kept a fairly close balance between exports and imports of goods and only if they allowed gold to expand prices. Moreover, the international trade balance was affected by the existence of debts. Interest on a foreign debt, like an import of foreign goods, could be paid for only by exporting gold, goods, services, or loans. Owing to the very small amount of gold in the world, the chief means whereby a debtor nation could meet its foreign debt was by exporting more goods (and services) than it imported. For example, suppose that the United States imported $1,000,000 worth of goods from Europe; suppose also that it owed Europe $200,000 in interest payments. To meet these two debts it would have to export goods to the amount of $1,200,000. Under such circumstances it would have a commodity "export surplus" of $200,000. On the other hand, the European creditor nations would have an import surplus of the same amount. Before the World War the United States had an export surplus which was perfectly logical because the United States was in debt to Europe. At the end of the World War, however, the United States had become a creditor nation; and it followed that if the course of international trade and the maintenance of the gold standard was not to be disorganized, the United States should actually receive more goods from the outside world than it exported. The outside world was now confronted not only with the task of paying for American exports of goods but of meeting the interest on money borrowed from the United States during the War.

Unwillingness to Receive Imports

Neither the American Congress nor the American business man was willing, however, to increase imports of goods. They were afraid that such increases would disorganize American industry, lowering profits and wages. This unwillingness to receive European imports would have been entirely logical had the United States been willing to cancel its foreign investments and to curtail its exports. But we did not wish to do either; we wished to maintain the gigantic industrial plant which had been built up during the War; we even wished to expand this plant. Consequently, American business backed by the trade promotion activities of the Department of Commerce adopted a policy of booming the American export trade. The product of the American factory was distributed into every corner of the world. But instead of lowering our tariff so as to enable the world to pay for these exports with goods, we actually increased our tariff in 1921, 1922 and 1930. In addition, the American government began to subsidize its merchant marine, again making it difficult for the outside world to discharge its debts in services to the United States.

Balancing the Books

How then did we balance the books? Between 1920 and 1930 the outside world accumulated a debt to the United States of about $18,000,000,000—a sum due us for our surplus exports and interest on foreign loans. How did Europe meet this gigantic debt? As we have seen, the American government would not let this debt be paid by imports of goods. We felt that we were clever enough to defeat the old economic law that he who sells must also buy, through resorting to two devices. We would allow Europe to meet this debt to the United States, (1) by the expenditures of American tourists abroad, (2) by lending the outside world new money with which to meet the interest due on old money and to pay for current American exports. All of us know what a tourist expenditure is; an American in France who expends $5 a day on a hotel room performs the same economic function as an American at home who buys $5 of French imports. Literally hundreds of thousands of Americans visited Europe between 1920 and 1930, thereby giving Europe one means of meeting its debt to the United States. By this time all of us are also familiar with foreign loans. This country underwent a veritable orgy in foreign lending. It was by these two means, namely the expenditure of tourists' money in Europe and the lending of new money that the American people were able to build up an enormous export trade and collect the interest on the Allied debt and many private foreign investments without at the same time receiving an import surplus. We Americans had created "a new economic era" in which we could have our cake and eat it too.

This system of helping the outside world pay for American exports through American tourist expenditures and new loans worked beautifully until 1929; then something happened. The Wall Street boom absorbed funds otherwise available for foreign investment. The American boom now came to an end, and the depression set in. American tourist expenditures declined, and no new American foreign loans were forthcoming. The international books which previously had been balanced now suddenly became unbalanced, and it is this unbalance which was one of the causes of unemployment throughout the world and still remains a fundamental obstacle to recovery.

Foreign Loans Cease

As a result of the sudden cessation of foreign lending by the United States, foreign countries began to drain their gold supply in order to meet their foreign debts. Inasmuch as gold was the basis of their currency system these governments soon were obliged to check the drain. The eventual result was, however, that about twenty governments had to go off the gold standard. Meanwhile because of the pull of interest pay-

ments and because of the uncertain financial conditions elsewhere, the United States and France had concentrated nearly two-thirds of the gold of the world. This gold did not, however, lead to an increase in prices in the United States and France, nor did it lead to increased imports into the United States and France. These governments had effectually prevented the operation of the gold standard by high tariff policies. The export of gold to the United States, however, did have the effect of decreasing prices in the debtor countries. We all know that prices have fallen between 30 per cent or 40 per cent in the last two or three years; and most economists are agreed that a major cause of this price decline has been the concentration of gold in France and the United States. This decline of prices and the general financial disorganization into which the world was thrown as a result of the Wall Street crash, meant that factories which had been operating at a profit began to operate at a loss. A policy of retrenchment set in and men were thrown out of work. Unable to ship either gold or goods to the United States, government after government declared a moratorium upon their foreign loans, which is a polite word for bankruptcy. The exports and imports of every country dwindled, along with domestic trade. There are many causes which explain why 25,000,000 men are out of work throughout the world today and why the standard of living in every country has drastically declined. But a major cause, I am convinced, is the past commercial policy of the United States, which insisted upon selling abroad but was unwilling to import in return.

Two Unsound Remedies

Confronted by the disastrous results of this policy, two remedies have been proposed. The first is that the United States should cut itself adrift from the rest of the world and go its own way in a self-containment program. To some of us it would seem morally impossible for a country which has been largely responsible for creating such conditions throughout the world now to scuttle the ship. But apart from any ethical considerations, I am convinced that the United States could adopt a self-containment policy only by drastically reducing our standard of living. Doubtless we might be able to dispense with many of our exports, doubtless we could survive the shock of the cancellation of all of our foreign investments. But it is hardly conceivable that the American people could dispense with their present reliance upon imports of raw materials and other products. Especially in view of the vast progress in communications, it is impossible for the United States to prosper when the remainder of the world is in chaos.

The second remedy—one advanced by many conservatives—is that the United States can recover its prosperity merely by resuming its export trade and embarking upon a new program of indiscriminate foreign lend-

ing. These people wish apparently to restore conditions as they existed before 1929. It seems to me, however, that such a policy is neither possible nor desirable.

The only sound solution for our present difficulties, the only remedy for our present poverty and unemployment, is the collective reorganization of agriculture and industry at home and the readjustment of the relationship between creditor and debtor nations abroad. Any collective plan for economic recovery must, however, be more than national; it must be international. As part of its reconstruction program, the United States should adopt a new commercial policy.

A Seven-Point Commercial Policy

In the first place, it is necessary to take immediate action in extending the Hoover moratorium upon inter-Allied debts. In June 1931 President Hoover took the initiative in bringing about a suspension for one year of German reparation payments to the Allies and of Allied debt payments to the United States. The Allies took advantage of this breathing spell virtually to wipe out reparation payments against Germany at Lausanne last July. They made the Lausanne agreement, however, dependent upon a reconsideration of the debts by the United States. Owing partly to political considerations the American government did nothing to bring about a fundamental reconsideration of the debt question. Immediately after the November elections, however, France and Great Britain asked the American government to relieve them of the responsibility of making payments due December 15, and to initiate discussions leading to a further revision of the debts so that the Lausanne reparation agreement might enter into effect. Thus the United States has been asked to reduce the debts, following the example of the Allies who have already expressed the willingness virtually to wipe out reparations, as a contribution to world economic recovery.

1. *A Debt Moratorium*

In its fundamentals the inter-Allied debt problem is quite simple. Europe can pay the debt if the United States will accept European goods. The United States will not accept these goods; Europe, therefore, cannot pay. If Congress adopts a far-sighted debt and tariff-revision policy, it will hasten economic recovery, but if it becomes dominated by Mr. Hearst's emotionalism and demands immediate and unconditional payment, it will strike a blow at international confidence and goodwill which may set back the economic recovery of the United States for many months. The question is, however, more than economic; it is political. If Congress demands that France meet the December payments, the Herriot government will probably be overthrown. The overthrow of this government, which is

the first French ministry to have any real sympathy for the international views of the United States, would be fatal to the successful outcome of the arms conference and to the establishment of a united front upon the Manchuria question. In deciding whether or not to extend the debt moratorium, the American Congress will thus control not only economic recovery but disarmament and the development of peace machinery. A false step will do untold harm.

2. *The Reduction of the Inter-Allied Debt*

I am convinced that the United States should agree drastically to reduce these inter-Allied debts provided such reduction forms a part of a plan for world economic reconstruction and disarmament. Some such suggestion has already been endorsed by President Hoover, Senator Borah and Alfred E. Smith. There are three considerations to be borne in mind concerning this debt. First it was a thoroughly unproductive debt in that its sums were expended in the destruction of property instead of in what we now call "productive" public works. Secondly, owing to the decline of prices, the burden of this debt which must be paid in gold has increased by half. Finally, from the political standpoint the retention of the inter-Allied debt, especially in the present form of inter-governmental payments, perpetuates the political antagonisms of the World War. The sooner the divisions created by that war are forgotten, the sooner shall we have peace and economic recovery. Those divisions can be overcome only by a permanent solution of the reparation and inter-Allied debt problems.

3. *Abolition of Trade Promotion*

I believe that the foreign trade promotion activities of the Department of Commerce, including the whole system of commercial attachés, should be abolished. The day of booming the export trade through the instrumentality of government has definitely come to an end. The activities in this respect of the Department of Commerce at Washington should be rigorously curtailed, partly as a measure of economy, partly as a measure of policy. It is not a proper function of government to act as a salesman for American businessmen abroad. When governments compete against each other in order to secure trade they engender animosities out of which wars have arisen in the past.

4. *Supervision of Foreign Loans*

The governments should establish a strict and adequate supervision of future foreign loans. Recently we have heard the State Department denounced for its attempted supervision of foreign loans. I agree that this supervision has been ineffective, but this does not mean that we should allow future foreign investments to be carried on upon a "buyer beware" basis. The savings of the American people must be adequately protected by some form of government agency. There has recently been a dis-

position also to blame the Wall Street bankers for the losses to American investors in connection with foreign loans. While I hold no brief for the bankers and while I am convinced that many unwise issues were made, it is only fair to repeat that the fundamental reason for the over-expansion of American foreign investments after the War was our governmental policy of booming the exports of goods while making imports extremely difficult through a high-tariff policy. American foreign investments will not be placed on a sound basis until the relationship between our exports and imports of goods is readjusted. It is possible that this end will not be achieved without a drastic scaling down not only of the inter-Allied debt but of all private foreign investments. In short, the future protection of the American investor in foreign bonds depends upon a fundamental reorganization of the underlying factors in American commercial policy.

5. *A New Tariff Policy*

It is essential that the United States adopt a new tariff policy. It is almost universally agreed that the constant increase in tariffs to which the world has been subjected during the last few years serves merely to throttle international trade and to increase unemployment and poverty. I realize that an immediate and drastic reduction in the tariff on the part of this country alone would merely accentuate our present distress, but I am convinced that there can be no recovery throughout the world as a whole until the frightful maladjustments caused by insane protectionism are removed by a concerted international policy. I hope, therefore, that the United States at the forthcoming world economic conference will take the lead in securing two ends; first an international tariff truce prohibiting any further increases in duties, second an arbitrary international tariff cut, say of 10 per cent. In addition I welcome the proposal of President-Elect Roosevelt for reciprocity tariff negotiations. While recognizing that such negotiations will take a long time to complete, and while realizing the difficulties created by the most-favored-nation principle, I believe that the experiment should be tried.

If reciprocity negotiations are to be successfully consummated the fundamental principle of the present American tariff system must be changed. The purpose of the American tariff act is to equalize the cost of production between American and foreign producers. This cost of production principle is thoroughly unsocial, unscientific and unsound. If it were literally applied it would mean the complete stoppage of all international trade. It is a principle which ignores the interests of the consumer and of the laborer; its chief aim is to protect the producer no matter how inefficient he may be. As a result today some of the most highly protected industries in the United States are those industries which pay the lowest wages and which have the poorest working conditions. I am unalterably opposed to giving protection to any industry which does not pay

a decent wage. We should frankly abandon the cost of production principle in favor of what I call the American standard of living principle. Our tariff commission should discontinue its minute investigation into the costs of every little industry that applies for government aid and should attempt to study industrial and social conditions in the United States with a view to determining the actual effect, if any, of the tariff upon high wages in a given industry and whether or not the American people would profit from an interchange of goods with foreign countries. Only by the adoption of some such principle will it be possible successfully to conclude reciprocity agreements. The solution of the tariff question lies neither in free trade, which is part and parcel of the discredited system of laissez-faire, nor in the continuance of the present system of indiscriminate protection of special interests. The tariff commission should be converted into a genuine body of national planning; the tariff should become an instrument of social protection. When this is done I am certain that the existing tariff rates of this and other countries will be materially reduced.

6. *International Economic Cooperation*

The United States should participate in all sound international efforts to restore the financial structure of the world and to increase general purchasing power. For example, the gold standard has become a fetish in the United States. We insist that we must cling to it at no matter what cost. Obviously, however, the gold standard becomes of little value to us when the rest of the world abandons gold. If, under such circumstances, the United States clung to the gold standard, the chief result would be that it would lose its exports because foreigners would not be able to afford to pay our prices. Likewise, the United States would remain bound down by a burden of debt which could not possibly be paid. From the international standpoint it is highly desirable, therefore, that the United States should, in cooperation with the Bank for International Settlements or the League of Nations, participate in an international agreement having three purposes: (a) an increase in the international price level so as to correct the maladjustments caused by the drastic fall in prices since 1929, (b) the restoration of the gold standard in those countries which have recently been obliged to abandon it because of the gold policy of the United States and of France, (c) the construction of public works in a number of countries for the purpose of utilizing the credit made available by a cheap credit or "reflation" policy in the United States and elsewhere. It does little good to increase prices or to create easy credit unless intelligent, organized methods are also established for actually expending this credit so as to provide new jobs. The establishment of a consortium between France, Germany and Great Britain for the construction of certain public works in Central Europe was announced on November 15. This type of activity the United States should encourage both at home and abroad as a means of starting again the wheels of industry.

7. *A Policy of Peace*

Finally, business recovery and the orderly conduct of international exchange upon a mutual basis satisfying the needs of every country is possible only if the fear and danger of war is removed from the world. No economic international policy can achieve its aims unless it is accompanied by a policy of political organization providing for the orderly and pacific settlement of disputes as they arise, the development of new international law to compromise conflicting national interests and joint action against the state which resorts to war without having exhausted the means of pacific settlement.

From this standpoint I welcome the efforts of the Hoover-Stimson administration during the last few months in support of the Anti-War Pact. Our policy presented many dangers arising primarily out of the fact that we had not consented to the establishment of any international organization to interpret and apply the Anti-War Pact. Nevertheless, the Hoover-Stimson policy should be welcomed as a transitional measure looking toward responsible political cooperation between the United States and the rest of the world. It is essential, therefore, that the United States should immediately join the World Court and that it should work out a regularized relationship with the League of Nations. The problem of poverty and unemployment cannot be solved without a revision of our foreign commercial policy. The likelihood of international war will not disappear until the economic causes of war are attacked. But these causes cannot be removed without political organization.

In short, economics and politics must establish a united front in an attack upon the twin curses of war and poverty and in a campaign for the realization of social prosperity and international peace.

America and The World Crisis

an address by

Senator William E. Borah

under the joint auspices of

University of Minnesota

and

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America and The World Crisis

The following address by Senator William E. Borah was delivered August 3, 1932, under the joint auspices of the University of Minnesota and the Minneapolis Branch of the Foreign Policy Association. It is now reprinted because of the inherent interest of Senator Borah's suggestions and because the issues which he discussed are even more vital today than they were a few months ago.

LADIES AND GENTLEMEN: This splendid audience manifests a deep interest in the great problems now confronting the American people. I thank the officials of the University and the Foreign Policy Association for this opportunity to discuss these problems.

We are now near the end of three years of an economic depression unprecedented in our history. We have had other depressions but none so world-wide and none so devastating. The present conditions can not be overstated. It would be difficult to exaggerate their seriousness. It is an hour full of difficulty and danger. People are losing their homes, their farms, business enjoys no profits, and we have some eight or ten million people in this country unemployed. What it all means in human suffering, in agony of heart and mind, no words are adequate to tell.

Should we approach another winter without some change for the better, the situation of this country will be exceedingly serious. How serious, time alone can reveal.

My study of this depression leads me to believe that our future prosperity is wrapped up in the solution of certain international problems. We have tried this expedient and that expedient, but so far we have found little relief. I am convinced we must go back to the source of our troubles and deal with the things which brought this depression to us. I can not see any permanent upward trend except through the solution of some of the problems, if not all, coming to us from the Great War. I can not see any marked and permanent rise in the price of farm products or the restoration of confidence necessary to the rebuilding of our economic prosperity until we have dealt successfully with these post-war problems. I can not see an end to our unemployment except through the solution of, or the disposition in some way of, these same problems. I am going, therefore, to discuss tonight as best I may these questions and try to point to the relationship between the post-war problems and our present conditions.

It seems to me there is one of two courses for the United States to pursue under present conditions. One is to become the leader in a program for the solution and disposition of the problems growing out of the War, economically and financially. I do not believe we can deal successfully with these problems properly unless we assume the position, as it were, of leadership. I do not think any other nation in the world is in so advantageous a position to lead as this nation. We often hear it said in this country at the present time that there is a great demand for leadership, referring particularly to individual leadership. It seems to me that the demand for national leadership is infinitely greater than that for individual leadership.

The European nations particularly have become so involved and so inter-involved in these problems that some nation better situated to lead must formulate a program and lead out and mold public opinion behind it if we are to have anything in the nature of an immediate successful disposition of it. This is no reflection upon other nations, simply stating the situation as we find it to be economically and financially.

The second course which the United States may pursue is to withdraw as far as possible from European affairs. Economically and financially that is a difficult thing to do. It is doubtful if that is a practical course under present conditions. Therefore, an honest, determined effort should be made, not only in the interest of economic rebuilding but in the interest of humanity, to solve the great problems which are now torturing the human family. Furthermore, it does not seem there is very much doubt as to what these problems are. It is a lack of willingness to take hold of them rather than a lack of knowledge.

I wonder if the world ever faced a situation in which there was so much of human misery involved as the situation which now is all about us. The appeal coming to us, therefore, not only involves economics and finance, material things, but it is the great voice of humanity calling out for leadership and for relief. While I am discussing the matter tonight primarily from the standpoint of the American people and their interests, we ought never to overlook or be indifferent to the fact that world-wide conditions involve questions of humanity which do not regard national boundaries. It has been the policy of our government, supported by a generous people, to extend counsel and help to distressed humanity wherever found, since the day it was organized. In our own interest, in the interest of our own people, and in behalf of humanity everywhere, we are urged to work out, if possible, a program of rescue.

When the World War closed it was said that by reason of the War, the peoples of the world were carrying a debt of $680,000,000,000—an amount almost inconceivable, immeasurable, by the human mind. Whether this figure is too large or not, still the amount in economic effect was no

less. We know that the War left a mortgage upon the brain and energy of the human family that seemed destined to remain for decades.

Germany alone was assessed a reparation charge, speaking in round numbers, of thirty-two billion dollars. It must be apparent to all that this reparation charge thus lodged against Germany in so large an amount was designed not alone to cover damages for injuries but also to work economic injury to the German people and hold Germany down in economic vassalage. It was in a large part a work of punishment. No one familiar with the situation could have expected Germany to pay within any reasonable time, if at all, the sum of thirty-two billion dollars. To have done so, or have undertaken to do so, would have economically destroyed Germany, and to destroy Germany economically and financially, would be to demoralize, if not destroy, Europe as an economic factor. Reparations at once became one of the great problems for the world to solve. It has been a dominating factor in the world's troubles ever since.

The nations in Europe at the same time owed the United States the sum of about twelve billions dollars for money loaned during the War. Let me say here in the way of explanation that the amount was afterwards reduced to about six billion dollars and the payments spread over a period of some sixty-two years. Of course, technically, there is a wide difference between reparations and debts. There is no legal connection between the two. But they are both of them factors in the economic conditions with which we now have to deal.

Thus, at the close of the War, these large debts were resting upon the human family, calling for efforts in every direction, for sacrifice in every way, to meet them. These debts represented no productive, constructive enterprise. They represented in no sense a rebuilding spirit or rebuilding program. They were the fruits of war—violence, destruction.

There are only three ways I know of by which a nation can pay its debts to a foreign government. First, by goods or in kind. If the debtor nations are permitted to ship their goods into the country which they owe, they may pay their debts in that way. But all this was prevented. Immediately after it was ascertained that Germany was charged with the payment of thirty-two billion in the way of reparations, that of itself stirred all nations which might be in danger to increase tariff duties. These nations understood perfectly well that if Germany was to pit its efforts and apply its energies toward paying this debt, labor must work upon a very low scale of living, a low scale of wage, and that the nations of the world would not be able to compete with the productive capacity of Germany under such circumstances. The first great evil of the reparation assessment was to raise tariff duties. And these tariff duties prevented Germany from doing that which she was expected to do. How strangely this reparation problem worked. First, it laid upon Germany an immense

debt. Second, the debt itself caused an immense increase in tariff duties. Third, the increase of tariff duties prevented the payment of the debt.

That is one way in which the nations could pay. But tariff duties were increased to such an extent that the payment or the payment in goods was practically an impossibility. That method was therefore practically eliminated. Germany had to find some other means by which to pay her debts. The second way in which a nation may pay its debts is by service, shipping service, and kindred matters. We need not consider that, because there was no opportunity to pay in this way. The third method, and that is the one for which I desire to ask your particular consideration tonight, is the payment in gold. That was the method to which Germany and the other debtor nations were reduced. They must find the gold with which to pay.

We have in the world about eleven billion dollars of monetary gold, about one-third of the amount of reparations which Germany owed. The effect of reparations and debts was immediately to bring about a maldistribution of gold among the nations. That distribution began by reason of the fact that the nations owing these debts were constantly sending their gold into the creditor nations and the creditor nations were not returning the gold to the debtor nations. The creditor nations were getting the gold, but at the same time they were destroying the purchasing power of the debtor nations, thereby destroying the creditor nations' markets. We got the gold but we lost our markets.

In a few years France and the United States came to possess from 70 per cent to 75 per cent of all the monetary gold in the world. France and the United States have a population of about 170 million people. The balance of the population of the world is about 1,600,000,000 people. We had the gold but we could not keep the gold and keep our markets also. The purchasing power of the nations was diminishing day by day, week by week, and month by month. This awful glacier-like move of the downward fall of prices kept on its way. Reparations continued to be collected, debts continued to be collected, the purchasing power of the world continued to fall.

Let us go a little farther in the discussion of this fall of commodity prices and the disappearing of the purchasing power of the nations. From early in the year of 1929 to June 30, 1931, France increased her gold holdings 76 per cent. The United States increased her gold holdings about 25 per cent. The other nations, except Russia, decreased their gold holdings 17½ per cent. To attack a nation's gold holdings creates about the same kind of fear, the same indescribable fright and uneasiness, among the people as an attack by an invading army. The moment the gold holdings of these nations began to fall, they saw disappearing the primary means by which they could meet their obligations at home and abroad, fear beset them on every hand, and immediately there

came about a condition of affairs which in every way conspired to lower the price of commodities. Liquidation, withdrawal of credit, unwillingness to invest, to initiate productive enterprise, fell like night upon noon on the economic and financial world. If you care to examine the situation more in detail than I can give you tonight, you will find that from 1929, when the gold holdings of these two nations increased so rapidly, marks the same point of time when the commodity prices of the world began to fall. They followed in harmony, one with the other.

Beginning with 1929, and weighing the effect of reparations and debt payments, and tracing the course of affairs, let us see what effect it had upon the foreign markets of the United States.

Beginning with 1929, which I am taking as the starting point this evening, our export trade was in excess of five billion dollars for that year. On the basis of the first six months of 1932, it is now something less than $1,700,000,000. In other words, the value of goods sold in foreign markets since 1929 has declined to less than one-third. Contemplate the tremendous economic effect of curtailing the foreign exports of the United States in less than three years to one-third of what they were in 1929. It does not seem to me that there is any reason for speculation as to the cause of this depression when we come to study all these facts. Are not the causes reasonably plain? Are not the facts and figures available and the record before us for those who will read? There is no occasion to indulge in the pleasant speculation about these mystic cycles so much written about and talked of. The concrete facts are before us. I feel that unless we deal with these facts and the problems which they present we need not expect the depression to depart, anyway in the near future. We may ultimately work ourselves out after millions have been ruined or reduced to poverty, but even then, I venture to say, we will work out upon a lower level of living unless we deal effectively with these problems now before us. At the same rate of decline as above indicated for the last three years, our exports will reach zero in September, 1933. Of course, I do not expect them to reach zero for the simple reason that of necessity there will be some exchange and some expenditures. But I cite this to you to show the tendency which is taking place by reason of these conditions to which I am calling your attention. Let us illustrate this situation with reference to foreign trade in another way. Our export trade in 1929 was in excess of five billion. As I have said, on a basis of the first six months it is now less than $1,700,000,000. In 1929, it was estimated that our foreign trade provided a livelihood for 2,400,000 families. The United Kingdom, Germany, France and Italy have reduced their purchases from the United States in three years over 60 per cent. I ask in all sincerity: What would it mean to have the purchases in this country by those nations restored? Can we contemplate anything

that would be more calculated to arouse interest, to stir business, and to build up confidence, than that?

I have no doubt myself, although I presume there are those who differ with me, that the decline of purchases upon the part of these countries arises out of the post-war problems, such as reparations and debts, the disarranged monetary systems, armaments, and the demonetization of silver, especially in the Orient.

At this point, I desire to invite the particular attention of the wheat growers of this great Northwest to a few additional facts touching upon prices and reparations and debts. There is a striking relationship between gold movements to and from the United States and the price of wheat in the United States. The heaviest wheat price movements have invariably occurred in connection with gold movements either to or from the United States. Although we had one of the lightest crops in ten years, the signal drop of wheat in 1920 followed after the gold movement to meet the accruing Anglo-French commercial loans. Germany's efforts to pay reparations in the fall of 1921 came along with the heavy gold movement and were accompanied by a heavy wheat decline. By May, 1922, Great Britain made a considerable effort on the war debt and a large gold shipment took place, and again wheat prices went down. The next payment of the United Kingdom in 1923 with another exceptional gold movement from Europe sent wheat down again. The promises of the Dawes plan as to reparations and debt funding agreements sent gold abroad from America to Europe, and it was immediately followed by a rise in the price of wheat. It was only temporary for the reason that none of these matters were of a permanent nature. But there is an intimate connection between the gold movements from and to America and the rise and fall of the wheat in the United States. This is a natural relationship, in my judgment, a natural occurrence.

I ask you to consider for a moment now the question of armaments. It is one of the great problems coming to us from the great World War. Without its solution and without the drastic reduction of armaments, economic recovery inevitably must be retarded.

We are interested in the first place because we are interested in peace. I venture to say, until the business world is reasonably sure that Europe is not going to have another war within a reasonable time,—and an armed world is a fighting world,—that restoration of confidence which is necessary for business will be slow. Business will not enter upon active enterprise so readily and so effectively. There is, therefore, the question of peace. But at the present time, in a higher sense, disarmament is an economic problem. From 80 per cent to 85 per cent of all the taxes extorted from the people of Europe, are extorted for the purpose of war, either past or anticipated. This not only reduces the people to a low

grade of living but it withdraws from the great volume of credit which should go to the benefit of commerce and trade. These vast sums extorted from the people for building up armaments not only create uneasiness and suspicion but they drain the people of the means by which to enter into productive enterprises, to build homes and to buy the comforts which they should have. It is my belief that we can not restore confidence in the business world, that we can not restore economic solidarity or health in Europe until this load of armaments is lifted from the bended backs of the people.

I was informed today from an authority which I accept as the best of authority, your distinguished citizen and my distinguished friend, Senator Kellogg, that Europe at the present time has a standing army of 4,500,000. This is almost an impeachment of civilization. It is almost an impeachment of the divine teachings of the Saviour of men. It is undermining the very basis of a sound economic civilization. And how can Europe expect the United States to cooperate in rebuilding an economic world unless she rids herself of the crushing, devastating burden of armaments.

The adjustment of reparations, debts, and armaments, the question of the restoration of the gold standard throughout the world in order that we may have a stable exchange, the restoration of silver in the Orient, are conditions precedent, it seems to me, to a return of prosperity to the American farmer and security to the American home. I can not see how it is possible for the American farmer to find the market for the products of his farm, and I can not see how the American manufacturer can find markets for his manufactured stuff, with the world upturn, with an impoverished and tax-ridden people, with the purchasing power everywhere on the decline.

I have said lately that if we could use the debts of the United States to effectuate a settlement of these war problems, such a settlement as would open the markets of the world to the American farmer and open the markets to the American manufacturer, in other words, if we could purchase prosperity for the American people by the utilization of these debts, I would not hesitate to make the purchase. If I am correct in assuming, as I believe I am, that the settlement of these problems means prosperity to the American farmer, means the restoration of fair prices for his products, then these debts are of little moment compared to what that would mean for the farmer. How can the American farmer get back his prosperity until he gets back his markets? We have had the farm problem in the United States for more than ten years. We have had almost every conceivable theory before us for the restoration of prosperity on the farm. Everyone knows that until there is restoration of prosperity on the farm, there will be no restoration of permanent prosperity in the

United States. You must begin this prosperity by beginning at the top. I am deeply interested, therefore, in this question of finding your market for the American farmer. It is for that reason I am discussing these matters before you.

We have had almost every theory. My own view is that until you recover the markets of the world and restore economic conditions to a normal condition, until the American farmer is permitted to occupy the markets he once had, there can be no permanent prosperity. We have had the equalization fee theory, the allotment theory, the debenture plan, and different theories. If normal conditions were here, some of these propositions I think would be helpful, would be to the advantage of the American farmer. I have been an advocate of the debenture because I think it would equalize the effect of the tariff in this country. But so long as the purchasing power of the people is constantly decreasing, so long as markets are constantly closing, these remedies alone can not be effective for the restoration of prosperity to the American farmer. It is useless, it seems to me, to talk about taking care of the surplus when the whole crop is a surplus. When every bushel of wheat is being sold far below the cost of production, there is little in these schemes with reference to taking care of the surplus. When you come to read the two political platforms adopted at Chicago—I am not talking party politics tonight, but I am trying to talk common sense,—there is not, in my judgment, a single assurance to the American farmer to be found in either one of them. We must find it elsewhere, and that is why I am, according to my limited ability, presenting this matter to the American people. I do not believe that these other remedies will be effective until some of these fundamental changes are made.

The farmer was once told he was overproducing, that he was using too much machinery, that this present condition of affairs springs from overproduction. It is my contention it is not overproduction, it is underconsumption. We have, it is said, seventy million people in the world with their dependents who are on the ragged edge of starvation. There can be no overproduction so long as seventy million people are underfed and underclothed to the point of hunger and nakedness. And until these problems of which I speak are settled, it seemed to me, this underconsumption will not only continue, but will deepen with the years.

Let me say a word about our own debts. These debts are justly due. They are for money loaned. There is no reason in the world why they should be cancelled unless it can be shown that it is in the interest of the American people to cancel them. Unless it can be shown that the cancellation would bring us better than the debts, then there is no justification for cancellation. I have always been opposed to the cancellation of the debts outright. I am now. Unless we can exchange these debts for pros-

perity, for a reorganized economic world, unless you can exchange these debts for markets, unless you can exchange them for a rise in prices and for a decrease of unemployment, there is no reason why they should be cancelled. If I am in error as to the effect of the program which I have indicated, then I beg you to understand I am not advocating cancellation.

I take the position that these debts are simply economic factors to be utilized for the interest of the American people. They are not to be made into a fetish. They are not things to be worshipped. They are economic facts which may be exchanged for other economic facts if those economic facts are more valuable to the American people.

I am told when I say that, it is asking the American people to pay for the War. Well, my friends, you are now paying for the War. You have been paying for the War ever since it ended. You will continue to pay for it, in my judgment, until you are bankrupt if these international problems can not be adjusted. It is said by such men as Professor Fisher and Doctor Warner that this depression has cost the American people alone one hundred fifty billion dollars. We are supposed to collect $250,000,000 a year from these foreign nations. If we could trade this $250,000,000 to stop the devastating $150,000,000,000 depression, I would unhesitatingly do so. But it is upon that theory alone I propose to make the trade.

I read an editorial a few days ago in which it was said I was advocating the giving away of eleven billion to the American people. Well, we had an adjustment of these debts some years ago and we cancelled about six billion at that time. Some of the people who are criticizing my position earnestly advocated this cancellation. They told us at the time it meant the economic recovery of Europe. However, we did not exact of Europe at that time that she do a single thing in the way of reducing armaments, eliminating reparations, or any of those things which are prerequisites to economic recovery. We simply cancelled six billion outright and spread the rest of it out over sixty-two years. The benefit of it did not come to us because these other problems were left unadjusted. The depression cost us last year $2,600,000,000 in the way of falling off of taxes in our own country. In other words, last year our taxes, county, state, and governmental, amounted to $14,266,000,000. Take off $250,000,000, the amount which they are supposed to pay, and you still have left a tax bill of fourteen billion and over. The $250,000,000 makes very little difference in the tax bill. But a restoration of commerce and foreign trade, the restoration of commodity prices, the restoration of business, would make a vast difference in our ability to meet the tax bill. In other words, while the $250,000,000 is ours, and we are entitled to it, yet if we can effectuate a settlement of these problems by utilizing it, it would be the greatest investment ever made.

Do not misunderstand me, I am not in favor of readjusting or cancelling the debts until and unless these World War problems are adjusted,

until the questions of reparations, disarmament, the monetary problem, are settled and adjusted. I am not in favor of offering something until we have reasonable assurance that conditions are made such as to give reasonable assurance of return to prosperity to the American people.

This proposition which I am discussing is exceedingly well stated in a paragraph from the *Monthly Survey of Business* published by the American Federation of Labor, one of the best surveys that I know of. Discussing this question it said:

> "The world can not fully recover from depression until all nations are willing to make some sacrifice for the common welfare. Large transfers of gold between nations upset the balance of payment system and intensify the depression. In this country we have suffered acutely from the effects of world depression, and we can not ignore the fact that while we may lose $250,000,000 a year by reason of the readjustment or cancellation of war debts, nevertheless the depression brought us a deficit last year of $2,885,000,000 in the Federal budget. Our loss from depression last year reduced the Federal income nearly as much each month as the full year of debt payment."

In other words, if a program can be worked out and supported to a conclusion by which these World War problems are to be adjusted and conditions improved, as I firmly believe they will be under such circumstances, I think we ought to consider the question of readjustment, or even cancellation, of these debts. They are worth little indeed to us if conditions such as now obtain continue. Of course, we should demand such a program as will bring results. There is no occasion except upon the theory we are serving the interests of the American people by the restoration of sound, economic conditions.

There are two schools of thought in reference to this depression. One is composed of what I call the fatalists. They do not believe we can do anything. They seem to believe that it has got to run its course; that conditions must go on until we strike what they call the bottom which, in my judgment, is the abyss. They see nothing that can be done. You may pass your Reconstruction Finance Corporation measures and steady the situation for a while. But there is no constructive measure by which you can really prevent the depression from taking its due course and going to its final end. That is the fatalistic school. The members of this school seem to be in possession of the governments of the world.

There is another school which believes that this is a man-made depression. God has not visited us with famine or flood, nature has everywhere been generous and kind and patient. There is no reason for this depression, as I believe, except the unwise and vicious policies of the

governments of the world. The policies which have been pursued have been such as would have wrecked and demoralized the kingdom of Heaven.

If unwise policies have brought on the depression, wise policies will end the depression. For myself, I can not subscribe to the doctrine that all the intelligence and patriotism of the world must stand powerless, unable to rectify the mistakes which everyone now concedes were mistakes following the War.

The first ray of hope and the first assurance that these mistakes can be remedied comes from Lausanne. This is a bright spot in the conditions which have confronted us for the last eighteen years. France and Germany have finally reached an understanding. Reparations were reduced from the original amount of thirty-two billion dollars to $715,000,000, and that conditional. I favor encouraging, supporting and cooperating with the spirit of Lausanne. I am not in favor of doing it piecemeal. The United States can not help this situation by being in part of the time and out part of the time. We should have a clear-cut, definite program and organized behind it the public opinion of the world. It seems to me the United States should take its position in the settlement of these economic problems and go boldly to the task. The conditions of the United States are reaching the danger point. I would attend any conference in which economic and financial questions were to be discussed and I would take my chance upon the intelligence and patriotism of the representatives of the United States to properly protect the interests of the United States. It is said we are to attend a monetary conference, but that we will not discuss reparations and debts. How would you like to attend the play of "Hamlet" with Hamlet left out? If you do not discuss reparations and debts, in my judgment you will be unable to effectuate any settlement of any question. What is it that has discouraged the money systems of the world? What is it that has put twenty-one nations off the gold standard? What is it that has broken up exchange? These things seem to me to be the result of these unsettled post-war problems.

My friends, if we are going to deal with this matter, let us put all our energy and ability into the adjudication and determination of the questions. Let the United States do its part, provided they will give us a program which insures these war problems are out of the way for all time to come. As I said in the beginning, we are nearly three years in this depression. Human language can not picture the suffering which we have endured. It is not alone the man who has lost his home, but it is that indescribable mental agony which confronts countless millions of our people who do not know what the next six months will bring. Infinitely worse than physical suffering is mental suffering. The situation is one which is constantly deepening and which is bringing more and more of our people into the thralldom. It is a problem which should move any people into an exertion

of the highest endeavors to avoid anything further along these lines. Homes are being lost, farms abandoned, business ruined, loyal men and women forced on the streets and on the highway begging for something to eat. Let us not be misled. Look at the scene at Washington a few days ago. That was not a condition brought on by a few criminals. It was a revealment of a condition which prevails throughout the country. Loyal, devoted, American citizens out of employment and unable to feed those who are dependent upon them. If we could utilize these debts to end such a condition of affairs, I would count it most fortunate to do so. I would not hesitate to exchange debts incurred to carry on war, incurred to bring human suffering to thousands, for that freedom from worry, that relief from want, which is now enveloping the lives and eating out the very moral fibre of millions in our own land and tens of millions in other lands.

My friends, this is an awful situation. There is anxiety, suffering, and sacrifice all about us. I may be wrong in the views which I entertain. I submit them after long study for the judgment and criticism of all. But in this I can not be in error—*we can not afford to drift.* If these post-war problems do not stand in the way of recovery, what is it that holds prosperity and happiness back from a people full of energy and blessed on every hand by generous nature? What is it that robs men of the fruits of honest toil? Why can not we in a world of plenty have something for all? What is it that denies even a bare existence for those willing and anxious to earn a livelihood? Why should men and women be condemned to penury—if not starvation, in a world rich with everything that ministers to the wants of a civilized people? I contend that it is because of the uneconomic, intolerant, ruthless, policies and programs coming out of the great World War and still being carried on as if war were still in progress. These are the things which, to my mind, run counter to sound economic principles, break up and demoralize monetary systems, which thwart the natural laws and principles of trade and commerce, and thus leave the human family in confusion and distress. If I am wrong, then I ask: What is the cause of our ills and what is the remedy?